Market Update

FEBRUARY 2016

- Global equity markets were sharply lower in January
- Oil price volatility was the dominate reason for the global uncertainties
- China economic data marginally weaker but signs of stabilisation emerging
- US economic data mixed but remains resilient
- Eurozone economic activity shows continued improvement
- The Bank of Japan (BOJ) introduces negative interest rates to provide further stimulus
- RBA sees positive improvement in the economy as business credit growth continues to improve
- RBA retains cash rate at 2.0%

January market performance

Equity Markets – Price Indices	Index	At Close 31/01/2016	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5056.60	-5.4%	-8.9%
Japan	Nikkei	17518.30	-8.0%	-0.9%
Hong Kong	Hang Seng	19683.11	-10.2%	-19.7%
UK	FTSE 100	6083.79	-2.5%	-9.9%
Germany	DAX	9798.11	-8.8%	-8.4%
US	Dow Jones	16466.30	-5.5%	-4.1%
EMU*	Euro 100	1025.39	-6.3%	-7.6%
World**	MSCI – Ex Aus (Gross) (Hedged)	1220.16	-5.5%	-4.5%

Property – Price Index	Index	At Close 31/01/2016	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1281.39	0.9%	2.3%

Interest Rates	At Close 31/01/2016	At Close 31/12/2015	At Close 31/01/2015
Aust 90 day Bank Bills	2.28%	2.38%	2.54%
Australian 10 year Bonds	2.58%	2.82%	2.44%
US 90 day T Bill	0.32%	0.17%	0.01%
US 10 year Bonds	1.92%	2.27%	1.64%

Currency***		At Close 31/01/2016	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.71	-2.78%	-9.17%
British pound	A$/STG	0.50	1.02%	-3.83%
Euro	A$/euro	0.65	-2.39%	-5.27%
Japanese yen	A$/yen	85.64	-2.15%	-6.38%
Trade-weighted Index		61.50	-1.91%	-3.76%

* Top 100 European stocks trading on the FTSE
** Price Index (Source: msci.com)
*** All foreign exchange rates rounded to two decimal places (Source: FactSet)
Past performance is not a reliable indicator of future performance.

Global economies

Global equity markets continued the December pullback with a significant correction in January.

Oil price volatility continued with a sharp decline in crude oil.

Although US economic data remained mixed in January, the broad economy remains resilient. The services part of the economy, although weaker, remains positive.

Business conditions in the Eurozone have continued to improve.

China economic data was only marginally weaker in January and appears to be stabilising.

However, equity market volatility and weaker energy and commodity prices have raised deflationary fears.

Australian business credit growth has continued to improve in January. The Reserve Bank of Australia (RBA) has indicated that the improvement in the economy has been observed and they will be watching how this translates into improved general business activity.

The RBA kept the cash rate at 2.0%.

Market Update

US

In the US, economic data was mixed in January, although the overall economy remains in recovery mode.

The Institute of Supply Management (ISM) manufacturing index edged higher to 48.2 in January with the production index higher at 50.2 (up from 49.9) and new orders increased to 51.5 from 48.8.

Retail sales increased 0.2% month-on-month (mom) in January. Core retail sales were also firm, rising by 0.6% in January. The gains reflect solid increases for non-store retailers, including online retailers, of 1.6%.

Import prices declined by 1.1% (mom) in January. Overall, the effects of weaker commodity prices and the strong US dollar (USD)continue to weigh on US import prices.

The non-manufacturing ISM index declined to 53.5 in January, from 56.8 in December. The overall business activity series declined sharply, falling to 53.9 from 59.5 in December. The index for new orders fell to 56.5 from 58.9 and the employment index declined to 52.1 from 56.3. Overall the report points to a slowing in non-manufacturing output growth.

January non–farm payrolls came in at 151,000, down from the revised down 262,000 in December with unemployment declining to 4.9% from 5.0% in December.

The US Federal Reserve chair, Janet Yellen's speech to the House Financial Services Committee contained little new information on the monetary policy outlook. The Fed still expects gradual increases in the Federal Funds rate in 2016 and emphasised that labour market conditions had improved substantially, although there's still room for sustainable improvement. There was recognition that a spill over from international developments may pose risks to the US economy.

Core Personal Consumption Expenditures (PCE) inflation increased by 0.4% (mom) in December and 1.4% year-on-year (yoy).

The Conference Board index of consumer confidence improved to 98.1 in January from a downward revised 96.3 in December. Over the past 12 months the index has largely moved sideways and remains near its post Global Financial Crisis (GFC) crisis high.

The current 12 month forward Price Earnings (P/E) ratio for the S&P 500 index is 14.7 times.

Europe

Over to the Eurozone, the January manufacturing Purchasing Managers Index (PMI) came in at 52.3 compared to 53.2 in December and 52.8 in November. German data remains on an improving trend.

Gross Domestic Product (GDP) growth across the Eurozone was 0.3% in Quarter 4, 2015.

The UK services PMI rose from 55.5 in December to 56.5 in January while the composite PMI also increased from 55.3 in December to 56.1 in January.

The Eurozone unemployment rate declined from 10.5% in November to 10.4% in December. This unemployment level was the lowest rate recorded in the Eurozone since September 2011. The German unemployment rate in December was 4.5% and is the lowest level since 1981, having declined from 4.9% in December 2014.

China

In China, the manufacturing PMI declined to 53.5 in January from 53.7 in December.

However, the Composite PMI data increased to 50.1 in January from 49.4 in December while the Composite Services PMI increased to 52.4 in January from 50.2 in December.

In January, the People's Bank of China's (PBoC) foreign exchange reserve declined by USD 99 billion. The PBoC also announced an easing in the down payment requirements for home purchases in cities without home purchase restrictions.

Asia region

In Japan, manufacturing activity was slightly lower in January at 52.3 compared to 52.6 in December. Factory activity continues to increase. Production and new orders continued to expand. For the first time in 3 years, input prices declined as lower energy and commodity prices started to benefit manufacturers.

The Bank of Japan (BOJ) surprised investors by adopting a negative interest rate policy, where by central banks charge depositors rather than pay depositors interest for holding money. The move also signals that the BOJ may take more measures until inflation rises.

India's Q4 2015 GDP came in at 7.8% yoy while the Composite PMI increased to 53.3 in January. The improvement was mainly due to a better manufacturing PMI to 51.1 while the Services PMI continued its steady improvement to 54.3.

India's December Industrial Production growth continued to contract, down 1.3% yoy. However, Industrial Production grew by 1.6% mom seasonally adjusted to 6.6% compared to 5.0% in November.

India's inflation increased to 5.7% in January from 5.4% in December. Food inflation was the cause of this higher data, largely related to protein products. Core inflation remained steady at 4.8%.

Australia

Back home, the Reserve Bank of Australia (RBA) retained the cash rate at 2% at is February meeting. The non-mining sector of the Australian economy continues to improve.

RBA Governor, Glen Stevens, continued to provide an optimistic view on the Australian economy, although recognising that growth is uneven. He recognised that divergent policies by central banks was creating volatility across equity and bond markets, while uncertainty over Chinese policy was created by low oil prices.

The RBA is keeping a watching brief on the international market volatility but at this stage appears to be extremely constructive in the progress the economy is making in the transition from the mining boom.

The NAB Business Survey softened slightly in January, with any weakness caused by further sharp declines in mining and wholesale conditions and was largely concentrated in Western Australia and South Australia. This was indicative that conditions in the non-mining economy remain resilient.

Business confidence continued to be resilient despite the volatility in global financial markets. Although mining remains extremely negative other areas of the economy remain buoyant such as the construction sector where record residential construction pipeline is keeping confidence at high levels.

Total credit growth was running at 6.6% yoy in December, compared to 5.8% in the previous corresponding period. Business credit growth was running at 6.3% yoy in December, compared to 4.7% in the previous corresponding period.

The international tourism industry is improving with visitor arrivals surging, benefiting from the increase in the outbound Chinese visitor market. Some signs were emerging that Australians are becoming more focused on domestic destinations, seen in airport traffic and job advertising trends.

Market Update

EQUITY MARKETS

- The China Shanghai Composite Index was down 22.6% in January
- The German DAX Index was down 8.8%
- The broader Euro 100 was down 6.3%
- The Japanese Nikkei Index was down 8.0%
- The US Dow Jones Equity Index was down 5.5% in January
- Australian S&P/ASX All Ordinaries Index ended the month down 5.4%

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	-5.83%	5.28%	5.46%	9.80%
	S&P/ASX 50 Acc.	-7.96%	5.26%	6.20%	9.99%
	S&P/ASX Small Ordinaries Acc.	3.59%	-1.43%	-3.10%	6.56%

The global equity markets correction has continued in January, with an extremely sharp pullback. The S&P/ASX All Ordinaries was down 5.4% in January.

The S&P/ASX All Ordinaries Index on a 12 month basis was down 8.9%.

The 12 month return on the S&P/ASX 300 Accumulation Index was 5.83%.

The S&P/ASX 300 Industrials Accumulation Index was down 5.0% in January and for the 12 months was down 1.09%

Defensive parts of the equity market were the standouts in an extremely challenging environment. The Property, Utilities and Telecommunication sectors were the best performers, up 0.9%, 0.7% and 0.7% respectively.

Oil and commodity prices have been key drivers of equity market performance over the past 6 months as increased investor concerns over defaults across the energy and commodity companies continued to be a major focus in January. The Materials, Financials (ex Property) and Energy sectors, were down 9.1%, 8.9% and 6.5% respectively.

Sector	1 Month	3 Months	1 Year
Energy	-6.5%	-14.6%	-27.6%
Materials	-9.1%	-19.2%	-23.7%
Industrial	-2.7%	-2.2%	12.1%
Consumer Discretionary	-2.6%	4.0%	9.6%
Consumer Staples	-0.2%	5.5%	-2.6%
Health Care	-2.6%	3.1%	10.3%
Financials (ex Property)	-8.9%	-3.3%	-8.4%
Info Tech	-4.9%	3.1%	8.2%
Telcos	0.7%	4.5%	-5.2%
Utilities	0.7%	2.3%	16.7%
Property	0.9%	2.1%	7.5%

Market Update

BIG MOVERS THIS MONTH

Going up

⇑	Property	0.9%
⇑	Utilities	0.7%
⇑	Telecommunications	0.7%

Going down

⇓	Materials	-9.1%
⇓	Financials (ex Property)	-8.9%
⇓	Energy	-6.5%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) (Hedged)	5.45%	21.43%	14.22%	10.57%
	MSCI World $A Hedged (Gross)	-2.23%	9.79%	8.66%	12.84%
Emerging	MSCI Emerging Mkts Free	3.55%	20.51%	13.61%	13.43%
	MSCI AC Far East Free (ex Japan)	-11.60%	-1.05%	0.61%	9.90%

The sharp correction in the global equity markets in December gained downward momentum through January.

The US Federal Reserve Chair has continued to indicate that the emphasis is on a gradual increase in interest rates but remains data dependent.

The Shanghai Composite Index was down 22.65% in January and for the 12 months, has declined 14.7%.

The Euro 100 was down 6.3% in January, while the German DAX Index was down 8.8%.

The Japanese Nikkei was down 8.0% in January.

It was a challenging year for global equity markets. Over the 12 months ended 31 January 2016, the Nikkei Index, down 0.9%, was the best performer in the Market Update universe.

On the other hand, the underperformers over the 12 month period ended 31 January 2016, were the Hong Kong Hang Seng Index and the FTSE Index, down 19.7% and 9.9% respectively.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	7.47%	14.58%	14.93%	13.79%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	-5.58%	9.47%	11.20%	18.41%

The S&P/ASX 300 A-REIT Accumulation Index was up 14.32% over the 12 months to 31 January, 2016. The S&P/ASX 300 A-REIT Index was up 0.9% in January and up 2.3% over the 1 year period ended 31 January 2016.

Over 1, 3 and 5 years, the A-REITs outperformed global REITs, while Global REITs outperformed A-REITs over the 7 year period. Global property, as represented by the FTSE EPRA/NAREIT Index, was down 5.58% over a 1 year period.

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	2.19%	5.24%	6.69%	5.80%
	Australian 90 Day Bank Bill	2.22%	2.55%	3.21%	3.47%
Global	BarCap Global Aggregate Index	7.72%	12.51%	8.21%	1.45%
	BarCap Global Agg. Index Hedged	2.82%	5.95%	7.50%	7.94%

In January, the US 10 year bond yields were down 19% and closed the month at 1.92%.

Australian 10 year bond yields were down 8.5%, and closed the month at 2.58%.

Over a 12 month period, the unhedged global bonds index returned 7.72%, outperforming Australian bonds which returned 2.19%. The hedged global bonds index posted a strong one year gain of 2.82%.

Australian dollar

In January, the Trade-weighted Index was down 1.9% mom, but also down 3.76% during the 12 month period ending 31January 2016.

The AUD was down 2.78% against the USD in January, to finish the month at 71 US cents. On a 12 month basis, the AUD declined 9.17% against the USD.

The AUD was down 2.39% against the Euro in January. On a 12 month basis, the AUD was down 5.27% against the Euro.

Against the Japanese Yen, the AUD was down 2.15% in January. On a 12 month basis, the AUD was down 6.38% against the Yen.

Against the British Pound, the AUD was up 1.02% in January. On a 12 month basis, the AUD was down 3.83% relative to the British Pound.

The information contained in this Market Update is current as at 16/2/2016 and is prepared by GWM Adviser Services Limited ABN 96 002 071749 trading as ThreeSixty Research, registered office 105-153 Miller Street North Sydney NSW 2060. This company is part of the National Australia Bank Group of Companies.
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